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C O N F I D E N T I A L SECTION 01 OF 02 SHANGHAI 000083

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E.O. 12958: DECL: 2/8/2032
TAGS: [EFIN](#) [EINV](#) [PREL](#) [CH](#)
SUBJECT: NYSE SAYS REP OFFICES NOT LIKELY SOON

REF: A. SHANGHAI 70
[1](#)B. 06 SHANGHAI 7129
[1](#)C. SHANGHAI 25

CLASSIFIED BY: Mary Tarnowka, Pol/Econ Chief, U.S. Consulate
General Shanghai, Department of State.
REASON: 1.4 (b), (d)

[1](#)1. (C) Summary: New York Stock Exchange (NYSE) Executive
Director for Asia Pacific Yeeli Zheng updated Econoff on NYSE's
efforts to open a representational office on February 8. China
Securities Regulatory Commission (CSRC) Chairman Shang Fulin
appeared resistant to timely progress on this issue out of a
combination of economic protectionism and bureaucratic pique.
Without additional political pressure from the State Council, at
its current pace, the CSRC was unlikely to have final
regulations for foreign exchanges to open offices until late in
[1](#)2007. End summary.

[1](#)2. (C) Zheng coordinated NYSE's government relations in China
and had been meeting with CSRC officials and CSRC Chairman
Shang, who she knew socially, for more than a year. According
to her CSRC contacts, CSRC was still conducting "research," at
only a junior staff level staff as to the possible content or
scope of the regulations. She confirmed CSRC International
Director Zhang Weiguo's January 25 statement to Treasury DAS
Mark Sobel (Ref A) that a draft of the regulations was on
schedule to be completed by the end of March. While CSRC's
Zhang had been non-committal as to whether or not this
end-of-March time period would include the required "public
comment period," Zheng said that her contacts indicated it would
not. This public comment period on the draft regulations would
give every other government ministry a chance to review, and
possibly delay, the regulations. Once the comment period was
over, CSRC would then revise its draft into final regulations.
Zheng believed that given these parameters it was highly
unlikely NYSE would be able to open its offices by May; she said
she had been told only "sometime this year."

13. (C) Zheng believed there were two separate reasons for CSRC's foot-dragging on China's December 2006 Strategic Economic Dialogue (SED) commitment. The first reason was CSRC Chairman Shang's longstanding concerns that Chinese exchanges could not compete with foreign exchanges. Since for ideological reasons he believed that Chinese companies should be listed in China, he was resistant to allowing foreign exchanges any foothold in the Chinese market. The second reason, according to Zheng, was Shang's bureaucratic pique at having this decision forced on the CSRC by the Ministry of Finance without consulting him. Zheng said she had dinner with Shang shortly after the mid-December SED talks and asked when NYSE could open an office. Shang told her he had not been part of the SED talks in December and had been "surprised" by what he termed the "Ministry of Finance's (MoF) announcement" to allow the exchanges to open offices. He told Zheng that "I don't make decisions based on what I have heard in the news," and, "The MoF does not have the authority to make that promise." Zheng noted that the CSRC fell under Vice Premier Huang Ju's purview and said that he was "most likely beyond caring about such things now." (Ref B)

14. (C) Shang's reputation inside the Chinese government as an economic decision-maker had been greatly enhanced by the success of China's stock market reforms and market gains (Ref C), according to Zheng. Based on this, other officials were more likely to value Shang's opinion and give him political room to slow down the process of allowing international stock exchanges to open in China. Zheng said that the CSRC had been told to allow NYSE and NASDAQ open offices, but that there had been no clear guidelines on how fast the CSRC would have to move. Without pressure from above, Shang was unlikely to move the process forward any faster than he had already done. With pressure from the State Council, Zheng said she thought final regulations could be issued within six weeks.

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15. (C) Zheng said that NYSE wanted very much to be granted "the first license to open in China" for symbolic reasons. The NYSE had already collected and translated all of the information it believe the CSRC would ask for, basing this on the CSRC's established guidelines for foreign securities firms to open in China. She had offered to submit these documents already, but been told by CSRC officials that they were not in any position to process the documents. She said that NYSE intended to rent a property in Beijing for its prospective office within the next two weeks. (Note: NASDAQ already has rented office space in Beijing. End note.)

16. (C) Zheng said that it would be very helpful for the USG to persuade the CSRC "from the top down" that allowing Chinese companies to list overseas -- especially in the United States -- was actually beneficial for China rather than detrimental. She said that the CSRC believed the proper way to help their companies was to keep them in China. But, she argued, allowing companies to list overseas strengthened Chinese companies overall by enhancing their accounting, corporate governance, and transparency standards. She gave the example of Chinese investor confidence in the dual-listed China Life Insurance Company (listed both in the United States and China). She said that Chinese investors believed its reports to be more trustworthy since it had to issue reports that met U.S. standards.
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